

**Statement of the American Council of Life
Insurers**

before the

**Subcommittee on Capital Markets, Insurance, and
Government Sponsored Enterprises**

of the

House Committee on Financial Services

on the

Effects of Terrorism on Insurance Markets

October 24, 2001

The ACLI is the principal trade association for the life insurance industry, representing 426 companies, which account for 80% of the life insurance premiums and 81% of annuity considerations in the United States among legal reserve life insurance companies. ACLI member company assets account for 80% the total assets of legal reserve life insurance companies. We appreciate the opportunity to present this statement to the Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises on the topic of insurance coverage for terrorist acts.

As the collateral effects of the attacks of September 11 continue to unfold, much attention has been focused on the financial condition of the insurance industry. In this regard, the property/casualty insurance business will ultimately incur losses estimated at between \$30 to 50 billion, while the life insurance industry losses will be in the \$4 to 6 billion range.

Both segments of the insurance industry have repeatedly sought to assure the public and Members of Congress that they have adequate resources to cover these losses. However, the threat of additional and perhaps more widespread terrorist attacks, with even more devastating losses, dictate that Congress examine the capacity of the insurance system to respond to such previously unthinkable scenarios. We commend the Committee on Financial Services for timely examination of this critical issue.

Thus far, the property/casualty industry has been the focus of efforts to develop a private sector/government partnership to underwrite the risks associated with expanded terrorist losses. This is appropriate as the property/casualty industry has obviously had to absorb a much greater impact on its available capital reserves as well as a more immediate response from its reinsurers that terrorist coverage would be severely limited or unavailable in the future.

Because the life insurance industry has more than \$3.2 trillion in assets and processes, on the average, about 10,000 death claims each day, the losses of life resulting from the September 11 attacks, while tragic, do not pose a

threat to the solvency of the life insurance industry. However, the potential for continued acts of terrorism to result in substantially more significant adverse effects on mortality, and by that we mean the potential for mass death and disability on a much larger scale than we have previously experienced or imagined, gives rise to questions that we believe must be considered by Congress as well as the life insurance business. Will there continue to be a viable private sector market for life insurance products that cover risks of terrorism? Put differently, will life reinsurers continue to enter into reinsurance treaties covering catastrophic risks that include acts of terrorism? Additionally, if there are realistic prospects of an act of terrorism of sufficient magnitude to adversely affect the overall solvency of the life insurance business, is there a justifiable need for some mechanism to address that situation, and, if so, what form might such a mechanism take?

The uncertainty surrounding these questions suggests a need for the Committee to evaluate the potential needs of the life insurance industry, including its customers, as part of its current inquiry.

At this time, we are not seeking the establishment of a mechanism similar to those under consideration for property/casualty insurers. Indeed, it is not clear at this point that such a mechanism would be necessary or useful for life insurers. Nor is there any agreement within our industry as to what such a mechanism should look like were it deemed to be necessary. We think it is prudent, however, to start the process of asking “what if?” and to begin doing it now, before events necessitate a last-minute, crisis-driven reaction that might not be entirely in the best interests of the life insurance industry or its customers.

In that regard, the ACLI has developed a proposal to create a study commission comprised of government and private sector representatives to assess the potential effects on the life insurance industry of further terrorist activities. The proposal is designed to be included in whatever legislation the Congress develops to address property/casualty insurance issues. This is not a request for government assistance. It is instead our industry laying down a marker to reflect the need to examine this issue thoughtfully, hopefully without the risk of being overtaken by events.

Briefly, the proposal would work as follows. A nine member study commission would be appointed to assess: (1) possible steps that could be taken to encourage and sustain the private market for life insurance products

covering death or disability resulting from acts of terrorism and the threat of such acts; and (2) possible steps or mechanisms to sustain or supplement the ability of life insurers to cover losses due to death or disability resulting from acts of terrorism that significantly affect mortality experience or jeopardize the solvency of the industry as a whole.

This study commission would be comprised of five representatives from government (two from Treasury, one from Commerce, one from the Office of Homeland Security, and one from the ranks of state insurance regulators) and four from the private sector (two representing life insurers, and two representing life reinsurers). Any affirmative recommendations by the study commission would have to have the concurrence of at least two-thirds of the commission members to assure that such recommendations have at least some support from the life insurance business.

The study commission would have 30 days to organize itself and another 90 days to complete its work. The report of the commission would be submitted to the President pro tempore of the Senate and the Speaker of the House, with a copy to the White House. The legislation would direct Congress to give “prompt and deliberate consideration” to any recommendations for federal legislative action contained in the report. The study commission would be disbanded within 60 days after submission of the report.

To reiterate, by advancing this study commission, the ACLI is simply suggesting that the question of how acts of terrorism, or even the threat of such acts, will affect the life insurance business is a critical matter warranting prompt and thoughtful consideration by both the private sector and government. The events of September 11 have unquestionably introduced great uncertainty into the life insurance business. This uncertainty involves concerns over the way in which the risk of terrorism will be covered in insurance policies, how that risk will be quantified, how attendant pricing decisions will be made, and whether future events that even a few months ago were unimaginable carry with them the potential to overwhelm the solvency of our business. Given this uncertainty and the gravity of the issues at stake, we believe a study as outlined in the attached draft language is an appropriate response at this juncture.

**ACLI Concept Draft:
Study & Report on Potential Effects of Terrorism on the
U.S. Life Insurance Business**

Draft of October 24, 2001

Section ____. Study and report on potential effects of terrorism on U.S. life insurance industry

(a) Establishment.--Not later than 30 days after the date of enactment of this Act, the President shall establish a Commission (in this section referred to as the "Commission") to study and report on the potential effects of an act or acts of terrorism on the U.S. life insurance industry and the markets it serves.

(b) Membership.--

(1) Appointment.--The Commission shall consist of 9 members, as follows:

(A) The Secretary of the Treasury, or the Secretary's designee;

(B) The Deputy Secretary of the Treasury, or a designee appointed by the Secretary of the Treasury;

(C) The Secretary of Commerce, or the Secretary's designee;

(D) The Director of the Office of Homeland Security, or the Director's designee;

(E) Five members of the public appointed by the President, two of whom shall be representatives of direct underwriters of life insurance within the United States; two of whom shall be representatives of reinsurers of life insurance within the United States; and one of whom shall be an officer of the National Association of Insurance Commissioners.

(2) Vacancy.--A vacancy on the Commission shall be filled in the same manner in which the original appointment was made under subsection (b)(1).

(3) Chair.--The President shall designate one of the members of the Commission, who is also an officer or employee of the United States, as the chair.

(c) Operations in general.--

(1) Staff.--The chair of the Commission may appoint and fix the compensation of a staff of such persons as may be necessary to discharge the responsibilities of the Commission, subject to the applicable provisions of the Federal Advisory Committee Act (5 U.S.C. App.2) and title 5 of the United States Code.

(2) Coordination with General Services Administration.--To the extent permitted by law, and requested by the chair of the Commission, the Administrator of General Services shall provide the Commission with necessary administrative services, facilities, and support on a reimbursable basis.

(3) Support from represented departments.--The Secretary of the Treasury, the Secretary of Commerce, and the Director of the Office of Homeland Security, shall, to the extent permitted by law and subject to the availability of funds, provide the Commission with such facilities, support, funds and services, including staff, as may be necessary for the effective performance of the functions of the Commission.

(4) Agency cooperation.--The Commission may request any Executive agency to furnish such information, advice, or assistance as it determines necessary to carry out its functions. Each such agency is directed, to the extent permitted by law, to furnish such information, advice or assistance upon request of the chair of the Commission.

(5) Compensation.--All members of the Commission who are not officers or employees of the United States shall serve without compensation for work on the Commission. All members of the Commission who are officers or employees of the United States shall serve without compensation in addition to that received for their services as officers or employees of the United States.

(6) Expenses.--While away from their homes or regular places of business in the performance of duties of the Commission, members of the

Commission shall be allowed travel expenses, including per diem in lieu of subsistence, as authorized by law for persons intermittently in the Government service under section 5703 of title 5 of the United States Code.

(d) Study.--The Commission shall conduct a study of the U.S. life insurance industry to identify:

(1) Possible steps to encourage, facilitate and sustain provision by the U.S. life insurance industry of coverage for losses due to death or disability resulting from an act or acts of terrorism, including in the face of threats of such acts; and

(2) Possible steps or mechanisms to sustain or supplement the ability of the U.S. life insurance industry to cover losses due to death or disability resulting from an act or acts of terrorism--

(A) In the event that such act or acts of terrorism significantly affect mortality experience of [for] the U.S. population over any period of time;

(B) In the event that such losses jeopardize the capital and surplus of the U.S. life insurance industry as a whole; or

(C) In the event of other consequences from such act or acts of terrorism that the Commission determines may significantly affect the ability of the U.S. life insurance industry to cover independently such losses.

(e) Recommendations.--Based on the results of the study conducted under subsection (d), the Commission shall develop such recommendations as may be appropriate for changes in statutes, regulations and policies to--

(1) Encourage, facilitate and sustain provision by the U.S. life insurance industry of coverage for losses due to death or disability resulting from an act or acts of terrorism, including in the face of threats of such acts; and

(2) Sustain or supplement the ability of the U.S. life insurance industry to cover losses due to death or disability resulting from an act or acts of terrorism in the case of any event described in subparagraph (A), (B) or (C) of subsection (d)(2).

Recommendations developed under this subsection shall require the concurrence of at least two-thirds of the Commission's members.

(f) Report and Action.--Not later than 120 days after the date of enactment of this Act, the Commission shall submit to the President pro tempore of the Senate, and the Speaker of the House of Representatives a report describing the results of the study conducted under subsection (d) and recommendations developed under subsection (e). A copy of such report shall be submitted to the President of the United States. Upon receipt of such report by the President pro tempore of the Senate, and the Speaker of the of the House of Representatives, the Senate and House of Representatives shall give prompt and deliberate consideration to any recommendations for federal legislative action contained in the report.

(g) Termination.--The Commission shall terminate 60 days after submission of the report as provided for in subsection (f).